ORU ORAL ROBERTS UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30, 2019 and 2018

WITH

INDEPENDENT AUDITOR'S REPORT

HoganTaylor LLP
CPAs + ADVISORS

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HoganTaylor LLP
CPAs + ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Oral Roberts University

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Oral Roberts University and affiliate (collectively, the University) which comprise the consolidated statements of financial position as of April 30, 2019 and 2018, and the related consolidated statements of activities, and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of April 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019, the University adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic (958): Presentation of Financial Statement for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Hogan Taylor LLP

Tulsa, Oklahoma
September 19, 2019

ORAL ROBERTS UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

April 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 30,569,749	$ 22,746,755
Accounts receivable, net	4,029,594	3,483,093
Contributions receivable, net	2,000,244	6,428,191
Investments	12,925,116	13,573,765
Certificates of deposit	2,483,626	2,941,924
Prepaid expenses and other assets	5,027,762	3,955,220
Student loans receivable, net	22,948,100	24,918,278
Commercial real estate, net	34,526,815	33,824,738
Educational plant, net	83,022,204	73,558,875
Beneficial interest in assets held by others	1,417,993	1,975,479
Total assets	$ 198,951,203	$ 187,406,318
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 12,860,490	$ 12,858,344
Deferred revenue	3,736,001	3,999,833
Obligations under capital leases	505,355	-
Obligations under split-interest agreements	1,262,560	1,281,927
Government advances for student loans	20,371,835	20,323,637
Total liabilities	38,736,241	38,463,741
Net assets:		
Without donor restrictions	77,196,904	77,188,435
With donor restrictions	83,018,058	71,754,142
Total net assets	160,214,962	148,942,577
Total liabilities and net assets	$ 198,951,203	$ 187,406,318

See notes to consolidated financial statements.

ORAL ROBERTS UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended April 30, 2019
(with comparative totals for the year ended April 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenues, gains and other support				
Tuition and fees	$ 82,807,614	$ -	$ 82,807,614	$ 80,948,715
Room, board and other auxiliary services	24,233,645	-	24,233,645	24,594,648
Less: scholarships and fellowships	(43,153,030)	-	(43,153,030)	(39,942,984)
Net tuition, fees and auxiliary services	63,888,229	-	63,888,229	65,600,379
Contributions	1,127,063	29,088,170	30,215,233	20,545,436
Investment return	477,675	606,038	1,083,713	1,093,269
Contracts and grants	1,047,422	285,759	1,333,181	1,228,106
Commercial real estate operations	11,105,438	-	11,105,438	10,602,706
Other support	6,879,040	17,860	6,896,900	5,522,840
Net assets transfers - Joint Venture Agreement (Note 9)	(1,743,891)	1,743,891	-	-
Net assets released from restrictions	20,477,802	(20,477,802)	-	-
Total revenues, gains and other support	103,258,778	11,263,916	114,522,694	104,592,736
Expenses				
Education and general:				
Instruction	26,366,669	-	26,366,669	27,044,476
Research	101,944	-	101,944	248,146
Public service	3,368,386	-	3,368,386	4,072,710
Academic support	4,237,677	-	4,237,677	3,950,715
Student services	12,445,590	-	12,445,590	12,327,433
Institutional support	23,148,387	-	23,148,387	21,237,850
Room, board and other auxiliary services	20,913,989	-	20,913,989	20,673,073
Total education and general expenses	90,582,642	-	90,582,642	89,554,403
Commercial real estate operations	9,638,432	-	9,638,432	11,639,757
Other expenses	3,029,235	-	3,029,235	2,856,597
Total expenses	103,250,309	-	103,250,309	104,050,757
Change in net assets	8,469	11,263,916	11,272,385	541,979
Net assets, beginning of year	77,188,435	71,754,142	148,942,577	148,400,598
Net assets, end of year	$ 77,196,904	$ 83,018,058	$160,214,962	$148,942,577

See notes to consolidated financial statements.

ORAL ROBERTS UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended April 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Tuition and fees	$ 80,948,715	$ -	$ 80,948,715
Room, board and other auxiliary services	24,594,648	-	24,594,648
Less: scholarships and fellowships	(39,942,984)	-	(39,942,984)
Net tuition, fees and auxiliary services	65,600,379	-	65,600,379
Contributions	1,102,173	19,443,263	20,545,436
Investment return	353,310	739,959	1,093,269
Contracts and grants	975,821	252,285	1,228,106
Commercial real estate operations	10,602,706	-	10,602,706
Other support	5,480,479	42,361	5,522,840
Net assets transfers - Joint Venture Agreement (Note 9)	(1,743,891)	1,743,891	-
Net assets released from restrictions	18,985,210	(18,985,210)	-
Total revenues, gains and other support	101,356,187	3,236,549	104,592,736
Expenses			
Education and general:			
Instruction	27,044,476	-	27,044,476
Research	248,146	-	248,146
Public service	4,072,710	-	4,072,710
Academic support	3,950,715	-	3,950,715
Student services	12,327,433	-	12,327,433
Institutional support	21,237,850	-	21,237,850
Room, board and other auxiliary services	20,673,073	-	20,673,073
Total education and general expenses	89,554,403	-	89,554,403
Commercial real estate operations	11,639,757	-	11,639,757
Other expenses	2,856,597	-	2,856,597
Total expenses	104,050,757	-	104,050,757
Change in net assets	(2,694,570)	3,236,549	541,979
Net assets, beginning of year	79,883,005	68,517,593	148,400,598
Net assets, end of year	$ 77,188,435	$ 71,754,142	$148,942,577

See notes to consolidated financial statements.

ORAL ROBERTS UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended April 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	$ 11,272,385	$ 541,979
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,622,600	11,869,128
Realized and unrealized gain on investments	(289,146)	(378,489)
Loss on disposal of educational plant	30,804	115,833
Student loans cancelled	235,652	208,483
Provision for bad debts	259,017	(720,496)
Donated assets	(450,293)	(451,570)
Contributions restricted for long-term purposes	(21,647,003)	(3,346,149)
Change in:		
Accounts receivable	(1,061,175)	486,771
Contributions receivable	4,846,559	(4,167,270)
Prepaid expenses and other assets	(1,072,542)	(989,283)
Beneficial interest in assets held by others	557,486	52,343
Accounts payable and accrued expenses	2,146	(957,938)
Deferred revenue	(263,832)	(314,533)
Government advances for student loans	48,198	147,883
Net cash provided by operating activities	3,090,856	2,096,692
Cash Flows from Investing Activities		
Purchases of educational plant	(16,602,233)	(4,861,425)
Purchases of commercial real estate assets	(3,261,534)	(6,020,702)
Purchases of investments	(2,996,805)	(2,123,522)
Proceeds from sale of investments	4,063,938	1,114,390
Proceeds from the sale of certificates of deposit	484,000	3,500,000
Student loan collections	2,312,771	2,616,527
Student loans granted	(741,200)	(4,018,752)
Net cash used in investing activities	(16,741,063)	(9,793,484)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for long-term purposes	21,647,003	3,346,149
Other	(173,802)	(61,655)
Net cash provided by financing activities	21,473,201	3,284,494
Net change in cash and cash equivalents	7,822,994	(4,412,298)
Cash and cash equivalents, beginning of year	22,746,755	27,159,053
Cash and cash equivalents, end of year	$ 30,569,749	$ 22,746,755
Noncash Investing Activity		
Equipment acquired under capital leases	$ 659,790	$ -

See notes to consolidated financial statements.

ORAL ROBERTS UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2019 and 2018

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies

Nature of Operations

Oral Roberts University (ORU or the University) was founded to educate the whole person – mind, body and spirit. ORU promises a world-class academic experience in the context of a vibrant Christ-centered community.

ORU is a comprehensive university dedicated to strong student outcomes and offers 79 undergraduate majors, as well as 15 masters-level programs and three doctoral degrees. The most popular majors include: Ministry and Leadership, Nursing, Psychology, Business Administration, and Engineering. Faculty members educated at the nation's top graduate schools serve as academic, professional and spiritual mentors to students who come to ORU from every corner of the globe.

The student population consists of approximately 3,900 for-credit students from all 50 states and 103 countries. The alumni population consists of approximately 45,000 individuals. The ORU Golden Eagles Athletics Department is also proud to be a participant in 16 NCAA Division I men's and women's varsity sports.

The accompanying consolidated financial statements include the accounts of University Broadcasting, Inc. (UBI), which is under the financial control of ORU. Significant intercompany balances and transactions of UBI were eliminated in consolidation. Oral Roberts University and UBI are collectively referred to as ORU or the University.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) The consolidated financial statements reflect the activities of the University as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes herein are classified as follows:

> *Net Assets Without Donor Restrictions* – Net assets not subject to donor-imposed restrictions and available for purposes consistent with the University's mission. Revenues are generally reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Investment returns generated by funds without donor restrictions are classified as changes in net assets without donor restriction. Certain net assets classified as without donor restrictions are board-designated for specific purposes. Expenses are reported as decreases in net assets without donor restrictions.
>
> *Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions that must be met by actions of the University and/or the passage of time. Contributed assets normally fund specific expenditures of an operating or capital nature. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, including gifts and grants for buildings and equipment not yet placed in service; endowment gifts with donor-imposed restrictions requiring that they be maintained permanently by the University; unconditional promises to give; and investment returns on split-interest agreements and endowment

funds. Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Resources on deposit with financial institutions and short-term investments with an original maturity date of three months or less are classified as cash equivalents.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Unconditional promises to give are recorded net of an allowance for uncollectible receivables. This estimate is based on such factors as prior collection history, type of contribution and the nature of the fundraising activity. Amounts due in more than one year are discounted using a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue to the respective net asset class.

Bequests are recorded at the time an unassignable right to the gift has been established and the proceeds are measurable in amount. Conditional promises to give are not recorded until the conditions on which they depend are substantially met.

Investments and investment income

Investments in government and agency obligations, debt and marketable equity securities are stated at fair value. Investments are exposed to certain risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, change in the value of investment securities could occur in the near term and these changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Investment return consists of interest and dividend income and realized and unrealized gains and losses on investments, net of fees. Investment return on endowment investments, after all donor-required additions to the endowment corpus, are reported as net assets with donor restrictions subject to expenditure for a specific purpose until appropriated for use by the University. Any difference between the total return recognized and the amount appropriated under the University's spending rate policy is reported as net assets with donor restrictions subject to expenditure for a specific purpose.

Student loans receivable and government advances for student loans

Student loans receivable are recorded at their net realizable value and primarily represent amounts due from students under federal Perkins and institutional loan programs. A general allowance is made for uncollectible student loans after considering both long-term collection experience and current trends, such as recent default rates of cohorts entering repayment status.

In the event that the University no longer participates in the Perkins program, a portion of the amounts are generally refundable to the federal government. Perkins loans that are in default and meet certain requirements can be assigned to the U.S. Department of Education (DOE), which reduces the government advances for student loans. The DOE has notified schools that the Perkins loan program has expired and that no Perkins loan disbursements are permitted. The University will continue to administer the remaining student loans and follow the guidelines from the DOE on the wind-down of the Perkins program.

Commercial real estate

Commercial real estate is comprised of a three-tower, 2.2 million square foot office complex known as CityPlex Towers (CityPlex). Rental revenue is recorded on a straight-line basis over the terms of the leases. The investment in building, tenant improvements and related assets are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives and is reported in expenses of commercial real estate operations.

Educational plant

Purchased property, plant and equipment are generally recorded at cost. Equipment under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Donated assets are recorded at fair value at the date of the donation. Repairs and maintenance costs are expensed as incurred. Depreciation is calculated using the straight-line method to allocate the cost of various classes of assets over their estimated useful lives, or over the lease term for capital leases. Property, plant and equipment and related accumulated depreciation are removed from the accounting records at the time of disposal.

Beneficial interests in assets held by others

The ORU Golden Eagle Club, Inc. receives contributions and holds assets for which the University is designated the beneficiary by the donor. The net assets of this affiliated entity, determined on a fair value basis, are reported as net assets with donor restrictions. Contributions and subsequent changes in fair value are reported within net assets with donor restrictions. Beneficial interests in assets held by others also represent amounts held under irrevocable agreements and are carried at fair value.

Split-interest agreements

The University has received various irrevocable charitable gift annuities and irrevocable charitable remainder trusts under which donors have retained rights to periodic distributions. Assets received under these agreements are recorded at fair value in the appropriate net asset category and are included with investments. These investments consist primarily of gift annuity funds. Contribution revenues are recognized in net assets with donor restrictions at the date the agreements are established for the fair value of assets received less the estimated liabilities for the present value of future payments to be made to the donors or their designee. The liabilities are adjusted during the terms of the agreements for changes in the value of the assets, accretion of the discounts and other changes in estimates of future benefits.

The University also enters into revocable life loan agreements whereby lenders place funds with the University. Interest is paid to lenders at rates of 3% to 6%. Lenders may make withdrawals or convert the principal to an irrevocable contract or an outright gift of the principal to ORU over the life of the agreement. If called, the loans must be repaid, but the University's obligation to repay a loan terminates upon the death of the lender.

The fair value of assets held under split-interest agreements was approximately $3,488,000 and $4,978,000 at April 30, 2019 and 2018, respectively, and are included in investments in the accompanying consolidated statements of financial position.

Contribution revenue from new and matured split-interest agreements was approximately $68,000 and $20,000 for the years ended April 30, 2019 and 2018, respectively. Cash paid for interest, primarily related to split-interest agreements, was approximately $249,000 and $227,000 for the years ended April 30, 2019 and 2018, respectively.

Tuition and fees revenue and scholarships and fellowships

Student tuition and fees are recorded as revenue during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Scholarships and fellowships awarded on the basis of merit or need are reported as a reduction of tuition and fee revenue. Tuition discounts granted to employees and their dependents are recorded as compensation expense in the appropriate functional expense classification.

Student financial aid

The U.S. Government awards the University funds for student financial aid under three federal programs: Federal Pell Grant (Pell), Federal Supplemental Educational Opportunity Grant (SEOG), and Federal Work Study (FWS). Pell and SEOG provide eligible students a foundation of financial aid to assist with defraying the costs of post-secondary education. The FWS program provides part-time employment to students who need the earnings to help meet their post-secondary education costs. The program is also intended to broaden the range of worthwhile job opportunities to qualified students.

The University conducts certain programs pursuant to grants and contracts funded, and subject to audit, by various federal and state agencies. Amounts questioned as a result of audits, if any, may result in refunds to these government agencies.

The University participates in the William D. Ford Federal Direct Loan Program, which includes the Direct Stafford Loan Program and the Direct PLUS Loans for parents and graduate/professional students, collectively referred to as the Direct Loan Programs. Direct Loan Programs processed through the U.S. Department of Education are made to students attending the University. Such transactions are not recorded in the consolidated financial statements of the University. The University performs certain administrative functions under the Direct Loan Programs, which if not performed timely, could result in a liability to the University.

Auxiliary services

The University's auxiliary enterprises exist primarily to furnish goods and services to students, faculty and staff. Managed as essentially self-supporting activities, the University's auxiliaries consist principally of residence halls, dining halls, intercollegiate athletics and college stores. Auxiliary service revenues and related expenses are reported as changes in net assets without donor restrictions.

Fundraising expense

Fundraising expense incurred was approximately $2,517,000 and $2,471,000 in years ended April 30, 2019 and 2018, respectively.

Federal income taxes

ORU is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), except to the extent of unrelated business taxable income as defined by the Code. Such taxable income has not been significant. Continued compliance with applicable tax regulations affords ORU the opportunity to maintain its tax-exempt status.

Concentrations

ORU has cash and cash equivalents with several financial institutions that generally exceed federally insured limits by significant amounts. It has not experienced any losses in such accounts.

During the years ended April 30, 2019 and 2018, ORU received contributions of approximately $20,425,000 and $13,650,000, respectively, from a single donor or entities affiliated with the donor.

Fair value measurements

The Financial Accounting Standards Board (FASB) defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

The University utilizes the following fair value hierarchy, which prioritizes, into three broad levels, the inputs to valuation techniques used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets and liabilities,
- Level 2 – Significant other observable inputs,
- Level 3 – Significant unobservable inputs.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3).

Recently adopted accounting pronouncement

In 2016, FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which provides more relevant information about available resources (and the changes in those resources) to donors, grantors, creditors, and other users. The University adopted the provisions of this new standard for the year ending April 30, 2019, with retrospective application to the fiscal 2018 consolidated financial statements.

The adoption of this standard collapsed the three net asset categories (unrestricted, temporarily restricted, and permanently restricted) into two categories: with donor restrictions and without donor restrictions. In addition, the University made expanded disclosures to the liquidity of financial assets (Note 7) and expenses by both their natural and functional classification (Note 11). As a result of implementing this standard, prior year amounts for temporarily restricted and permanently restricted net assets were combined as net assets with donor restrictions. A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of April 30, 2018, follows:

	2018		
Net Assets Classifications	Without Donor Restrictions	With Donor Restrictions	Total
As previously presented:			
Unrestricted	$ 77,188,435	$ -	$ 77,188,435
Temporarily restricted	-	28,203,063	28,203,063
Permanently restricted	-	43,551,079	43,551,079
Net assets, as reclassified	$ 77,188,435	$ 71,754,142	$ 148,942,577

New accounting pronouncements

FASB has issued standards that the University must consider for adoption over the next year. Those standards, effective for the fiscal year ending April 30, 2020, include the following: (1) ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, (2) ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and (3) ASU 2016-02, *Leases (Topic 842)*. The contributions standard aims to assist entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Under Revenue from Contracts with Customers, recognition of revenue from customer contracts is a principles-based framework. The leases standard aims to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated statements of financial position and disclosing key information about leasing arrangements. The University is currently evaluating the impact of the adoption of these standards on its consolidated financial statements.

Subsequent events

Management has evaluated subsequent events through September 19, 2019, the date the consolidated financial statements were available to be issued.

Note 2 – Receivables

Accounts receivable at April 30, consist of the following:

	2019	2018
Student tuition and fees, net of $2,984,641 and $2,717,936 allowance for doubtful accounts, respectively	$ 1,823,212	$ 1,406,818
Contracts and grants receivable	231,448	12,822
Rental property receivables, net of $158,635 and $248,740 allowance for doubtful accounts, respectively	763,878	504,729
Other receivables	1,211,056	1,558,724
	$ 4,029,594	$ 3,483,093

Contributions receivable at April 30, are due as follows:

	2019	2018
One year or less	$ 2,356,290	$ 8,084,678
One to five years	1,698,213	716,385
More than five years	100,000	200,000
	4,154,503	9,001,063
Less:		
Unamortized discount	(65,477)	(37,377)
Allowance for uncollectible promises to give	(2,088,782)	(2,535,495)
	$ 2,000,244	$ 6,428,191

Student loans receivable at April 30, consist of the following:

	2019	2018
Perkins loans	$ 23,601,283	$ 26,062,375
Institutional loans	2,092,689	1,438,820
	25,693,972	27,501,195
Less allowance for doubtful accounts	(2,745,872)	(2,582,917)
	$ 22,948,100	$ 24,918,278

Note 3 – Investments and Fair Value Disclosures

The following tables present the University's investments that are measured at fair value on a recurring basis for each hierarchy level as of April 30:

	2019			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	$ 7,788,802	$ 7,788,802	$ -	$ -
Bond mutual funds	4,056,690	4,056,690	-	-
Government-backed securities	102,729	49,263	53,466	-
Corporate bonds	62,321	-	62,321	-
Corporate equities	774,474	774,474	-	-
Real estate trusts and other	140,100	140,100	-	-
	$ 12,925,116	$ 12,809,329	$ 115,787	$ -

	2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Equity mutual funds	$ 8,300,797	$ 8,300,797	$ -	$ -
Bond mutual funds	3,985,555	3,985,555	-	-
Government-backed securities	107,297	50,893	56,404	-
Corporate bonds	60,843	-	60,843	-
Corporate equities	695,663	695,663	-	-
Real estate trusts and other	423,610	283,609	140,001	-
	$ 13,573,765	$ 13,316,517	$ 257,248	$ -

Investments classified as Level 2 in the fair value hierarchy include corporate bonds and certain government-backed securities. These assets do not trade at a sufficient frequency to provide market close pricing and therefore require utilization of like asset activity inputs entered into a pricing matrix.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- Cash equivalents, accounts and contributions receivable, and accounts payable – The carrying amounts approximate fair value because of the short maturity of those instruments.
- Student loans receivable and obligations under split-interest agreements – Determination of the fair values cannot be made without incurring excessive costs.
- Beneficial interests in assets held by others consist primarily of cash and certificates of deposit and are therefore classified as Level 1 in the fair value hierarchy.

Total investment return, net of fees and included in the consolidated statements of activities, consists of the following for the years ended April 30:

	2019	2018
Interest and dividends	$ 794,567	$ 714,780
Net realized and unrealized gain on investments	289,146	378,489
	$ 1,083,713	$ 1,093,269

Note 4 – Commercial Real Estate

The carrying value of CityPlex at April 30, consists of the following:

	2019	2018	Estimated Useful Lives
Land	$ 2,815,144	$ 2,815,144	-
Buildings and improvements	122,101,219	121,851,764	20-50 years
Equipment	19,146,534	19,126,129	3-10 years
Tenant improvements	9,427,797	9,160,815	various
	153,490,694	152,953,852	
Less accumulated depreciation	(121,787,075)	(119,226,337)	
	31,703,619	33,727,515	
Construction in progress	2,823,196	97,223	
	$ 34,526,815	$ 33,824,738	

Operations of CityPlex for the years ended April 30, are summarized as follows:

	2019	2018
Tenant rental income	$ 11,105,438	$ 10,602,706
Operating expenses:		
Property management	360,000	360,000
Leasing commissions	473,758	367,496
Utilities	1,489,458	1,359,535
Operations and maintenance	4,755,759	5,666,043
	7,078,975	7,753,074
Operating income before depreciation	4,026,463	2,849,632
Depreciation	2,559,457	3,886,683
Net operating income (loss)	$ 1,467,006	$ (1,037,051)

Tenant improvements are amortized over the term of the related lease. Leasing commissions paid to third parties are capitalized and amortized over the term of the related lease.

Minimum future rentals under noncancelable lease agreements as of April 30, 2019, are as follows:

2020	$ 10,341,989
2021	9,940,607
2022	9,135,936
2023	8,237,914
2024	7,663,175
Thereafter	45,986,968
	$ 91,306,589

CityPlex operations and real estate are subject to the Joint Venture Agreement discussed further in Note 9.

Note 5 – Educational Plant

Net investment in educational plant at April 30, consists of the following:

	2019	2018	Estimated Useful Lives
Land and improvements	$ 17,564,022	$ 13,352,587	20 years
Buildings and improvements	139,263,097	138,479,219	20-50 years
Equipment	52,115,129	49,632,105	3-10 years
Vehicles	1,862,896	1,850,676	5 years
Library books	9,125,124	8,985,153	20 years
	219,930,268	212,299,740	
Less accumulated depreciation and amortization	(146,317,140)	(138,977,627)	
	73,613,128	73,322,113	
Construction in progress	9,409,076	236,762	
	$ 83,022,204	$ 73,558,875	

Depreciation expense related to educational plant was approximately $8,063,000 and $7,982,000 for the years ended April 30, 2019 and 2018, respectively. Amortization expense on capital lease assets was approximately $163,000 for the year ended April 30, 2019.

Note 6 – Line of Credit

On October 26, 2017, the University entered into an amended agreement to extend the line-of-credit through October 26, 2019. The amended agreement includes an interest rate equal to LIBOR plus 2.45% and maximum borrowings of $15,000,000. There were no outstanding balances under the line-of-credit at April 30, 2019 or 2018.

Note 7 – Liquidity and Availability of Financial Assets

The University's cash flows have seasonal variations during the year primarily attributable to tuition billings and timing of when contributions are received. As part of the University's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The University must maintain sufficient resources to meet responsibilities to its donors, various agencies and others. Thus, financial assets may not be available for general expenditure within one year.

Cash in excess of daily requirements are invested in short-term investments and certificates of deposit. Occasionally, the Board of Trustees designates a portion of any operating surplus to its liquidity reserve, which was approximately $3,523,000 and $2,000,000 as of April 30, 2019 and 2018, respectively. The liquidity reserve is in a fund established by the Board of Trustees that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. To help manage unanticipated liquidity needs, the University also has an available line of credit up to $15,000,000. In addition to the available financial assets, a significant portion of the University's annual expenditures will be funded by the current year operating revenues including tuition and auxiliary services.

The University's financial assets available for general expenditures due within one year of the balance sheet date are as follows:

Financial assets at year-end:	
Cash and cash equivalents	$ 30,569,749
Accounts receivable	4,029,594
Contributions receivable	2,000,244
Investments	12,925,116
Certificates of deposit	2,483,626
Total financial assets at year-end	52,008,329
Less amounts restricted or not available to be used within one year:	
Receivables scheduled to be collected in more than one year	(921,101)
Contractual or donor-imposed restrictions:	
Investments and other financial assets held for others	(1,338,242)
Perpetual endowments and accumulated earnings subject to appropriation beyond one year	(9,885,553)
Investments held in trusts and various state-required annuity reserves	(3,324,440)
Other donor-restricted financial assets	(15,575,989)
Board designated operating reserve	(3,523,069)
Financial assets available to meet general expenditures within one year	$ 17,439,935

Note 8 – Net Assets

Net assets consist of the following at April 30:

	2019	2018
Without donor restrictions:		
Board designated reserve for operations	$ 3,523,069	$ 2,000,000
Other net assets without donor restrictions	73,673,835	75,188,435
Total without donor restrictions	77,196,904	77,188,435
With donor restrictions:		
Subject to expenditure for specific purpose:		
Capital investment	20,454,946	7,716,042
Academic programs	3,674,205	4,479,364
Scholarships	2,192,685	2,021,518
Public service	1,695,528	1,933,525
Athletics	305,265	499,122
Other purpose restrictions	6,093,353	5,889,335
Total purpose restricted	34,415,982	22,538,906
Subject to the passage of time:		
Split-interest agreements	2,163,229	3,688,678
Beneficial interests in assets held by others	1,417,993	1,975,479
Total time restricted	3,581,222	5,664,157

	2019	2018
Investment in perpetuity, respectively), the income from which is expendable to support:		
College of Business	1,622,423	522,463
College of Theology	2,680,260	2,678,908
College of Education	599,967	599,291
College of Arts and Sciences	1,570,262	1,544,068
College of Nursing	21,668,565	21,666,089
General scholarships	10,960,766	10,764,703
General activities of the University	5,918,611	5,775,557
Total endowment funds restricted in perpetuity	45,020,854	43,551,079
Total with donor restrictions	83,018,058	71,754,142
	$ 160,214,962	$ 148,942,577

Net assets restricted by donors for capital investment consist primarily of contributions designated for on-campus construction projects and CityPlex refurbishment.

Note 9 – Endowment

The University's endowment trust consists of approximately 250 individual funds established for a variety of purposes. The Board of Trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the state of Oklahoma, as requiring the preservation of the fair value of the original gifts as of the gift dates of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions (a) the original value of assets contributed to permanent endowment funds, (b) subsequent contributions to such funds valued at the date of contribution, and (c) reinvested earnings on permanent endowment when specified by the donor.

The endowment trust was established in 1973. After a period of inactivity, it was reactivated in 1988 by creation of the Anna Vaughn Benz Fund for the School of Nursing. During the 1990s, the University experienced periods of financial need which were met, in part, by borrowings from the endowment trust.

In recognition of the University's obligations for borrowing from the endowment trust, effective May 1, 2008, and amended on April 28, 2010, the endowment trust and the University entered into an agreement (the Joint Venture Agreement) whereby, among other things, they made the following agreements:

- CityPlex ownership and operations will remain vested in and the responsibility of the University
- The endowment fund's interest in certain promissory notes receivable from the University were contributed to the joint venture
- All annual operating income of CityPlex (as defined) is split between the University and the Endowment Trust. According to the agreement, the University guarantees the endowment fund will receive the greater of $1,743,891 or 53.66% of the annual operating income of CityPlex
- In the event of a sale of CityPlex, proceeds will be allocated as follows:
  - First $34,877,825 of net proceeds to the endowment fund
  - Proceeds in excess of $34,877,825 to $65 million, first to temporarily restricted fund accounts from which the University had borrowed funds, if any, then to the University's net assets without donor restrictions
  - Proceeds in excess of $65 million, if any, 53.66% to the endowment fund and the remainder to the University's net assets without donor restrictions

For the years ended April 30, 2019 and 2018, CityPlex's income before depreciation and amortization was approximately $4,026,000 and $2,850,000, respectively. The guaranteed return of $1,743,891 for 2019 and 2018, is reported in the consolidated statement of activities as a transfer from net assets without donor restrictions to net assets with donor restrictions. Net assets released from restrictions in 2019 include appropriation by the board of trustees of all endowment earnings which were used for the restricted purposes as scheduled above.

Endowment trust assets consisting of cash and cash equivalents and marketable securities, and the endowment trust's interest in the Joint Venture Agreement are summarized in the table below. Included in net assets with donor restrictions on April 30, 2019 and 2018, are as follows:

	With Donor Restrictions	
	2019	2018
Endowment net assets, beginning of year	$ 46,931,661	$ 46,206,739
Investment return:		
Investment income	252,554	269,622
Net realized and unrealized appreciation	52,763	261,963
Total investment return	305,317	531,585
Joint venture agreement income	1,743,891	1,743,891
Contributions	1,292,438	305,633
Appropriation of endowment assets for expenditure	(1,874,567)	(1,856,187)
Endowment net assets, end of year	$ 48,398,740	$ 46,931,661

The University's spending policy for endowment trust assets consisting of cash and cash equivalents and marketable securities has the objective of providing income for the intended purpose of the funds while preserving the principal of the funds invested in these assets. Asset allocation ranges will reflect a moderately aggressive approach to income and growth and an acceptance of greater variability of return. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the endowment investments. Net investment return of these assets is disbursed annually for expenditure according to the donors' intent or retained to principal when designated by the donor. If the net investment return should be a loss for the fiscal year, no disbursement for expenditure is made until such time as the loss is recovered.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. UPMIFA has been interpreted to permit spending from underwater endowments in accordance with prudent measures required under law. At April 30, 2019 and 2018, there were no significant deficiencies of this nature.

Note 10 – Employee Benefit Plans

Certain employees or University employees, except for employees who are eligible to participate in the 401(k) plan sponsored by the University, students and nonresident aliens, are eligible after specified periods of employment to participate in a contributory retirement and annuity program through TIAA-CREF. Effective as of May 1, 2012, the University provides a 50% matching contribution on deferrals up to 6% of the eligible employees' compensation. The University's portion of the contribution for the years ended April 30, 2019 and 2018, was approximately $687,000 and $693,000, respectively.

Effective January 1, 2015, the University implemented a group medical plan for its comprehensive major medical insurance which is self-insured with per individual stop-loss coverage of $125,000 in 2019 and 2018. The University paid claims and premiums of approximately $4,297,000 and $4,764,000 during the years ended April 30, 2019 and 2018, respectively. At April 30, 2019 and 2018, the University accrued approximately $841,000 and $829,000, respectively, for the estimated liability for employee benefit claims reported but not yet paid and claims incurred but not yet reported. This estimate is based on payment reporting patterns available at the time of the estimate. Although such estimates are the University's best estimates of the expected values, the actual results may vary from these values.

Note 11 – Natural Classification of Expenses by Functional Category

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, amortization and maintenance of plant, which are allocated on a percentage basis of total expenses.

Expenses by nature and function for the year ended April 30, 2019, consist of the following:

	Compensation and Benefits	Contractual Services	Supplies and Other	Depreciation and Amortization	Total
Instruction	$ 20,494,299	$ 2,962,024	$ 1,145,806	$ 1,764,540	$ 26,366,669
Research	50,775	10,696	30,835	9,638	101,944
Public service	670,947	1,093,077	1,407,325	197,037	3,368,386
Academic support	2,111,185	977,638	429,317	719,537	4,237,677
Student services	6,913,234	3,924,106	852,752	755,498	12,445,590
Institutional support	10,585,684	6,671,198	3,552,084	2,339,421	23,148,387
Auxiliary services	6,441,483	9,326,822	3,097,529	2,048,155	20,913,989
Commercial real estate	1,338,611	4,765,149	975,215	2,559,457	9,638,432
Other expenses	1,155,861	847,782	796,275	229,317	3,029,235
Total expenses	$ 49,762,079	$ 30,578,492	$ 12,287,138	$ 10,622,600	$ 103,250,309

Expenses by nature and function for the year ended April 30, 2018, consist of the following:

	Compensation and Benefits	Contractual Services	Supplies and Other	Depreciation and Amortization	Total
Instruction	$ 20,994,096	$ 3,115,542	$ 1,074,735	$ 1,860,103	$ 27,044,476
Research	95,474	28,786	105,369	18,517	248,146
Public service	639,143	969,919	2,219,502	244,146	4,072,710
Academic support	2,037,526	904,493	288,048	720,648	3,950,715
Student services	6,861,470	3,821,967	857,231	786,765	12,327,433
Institutional support	10,534,247	6,547,389	2,149,438	2,006,776	21,237,850
Auxiliary services	6,079,681	9,423,028	3,017,310	2,153,054	20,673,073
Commercial real estate	1,330,826	4,391,885	2,030,363	3,886,683	11,639,757
Other expenses	1,103,795	755,857	804,507	192,438	2,856,597
Total expenses	$ 49,676,258	$ 29,958,866	$ 12,546,503	$ 11,869,130	$ 104,050,757

Note 12 – Commitments and Contingencies

ORU is involved in various litigation arising in the ordinary course of business. After reviewing these actions with counsel, management does not believe that any resulting liability will be material to the consolidated financial statements taken as a whole.

The University has various operating leases for vehicles and office equipment; and various capital leases for network equipment. The leases have various expiration dates through 2022.

Future minimum lease commitments at April 30, 2019, are as follows:

	Capital Lease Payments	Operating Lease Payments
2020	$ 235,695	$ 67,457
2021	235,695	-
2022	61,401	-
	532,791	67,457
Less interest on capital leases	(27,436)	-
	$ 505,355	$ 67,457

Total rent expense for vehicle and office equipment was approximately $112,000 and $135,000 for the years ended April 30, 2019 and 2018, respectively.

The University has outstanding commitments on contracts to construct campus facilities and various refurbishments to CityPlex of approximately $8,178,000 at April 30, 2019. The construction contracts have an estimated completion date of fall 2019.

Note 13 – Transactions with Related Parties

The University has adopted a Conflict of Interest Policy by which a proposed transaction with a related party is to be reviewed by the Audit Committee of the Board of Trustees to confirm that a more advantageous transaction is not reasonably possible; the transaction is in the University's best interest; for the University's benefit; and fair and reasonable. The University entered into a limited number of transactions with related parties which are individually and in the aggregate immaterial to the consolidated financial statements.